

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Poochigian Analyst: Kristina E. North Bill Number: SB 1752  
Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: February 23, 2000  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Teachers' Unreimbursed Qualifying Classroom Educational Expenses Deduction

### SUMMARY

Under the Personal Income Tax Law (PITL), this bill would allow a 100% deduction of up to \$500 for unreimbursed qualifying classroom educational expenses paid or incurred by a qualified teacher.

This analysis will not address the bill's provision regarding school funding as it does not impact the department's programs and operations.

### EFFECTIVE DATE

This bill specifies that it would apply to taxable years beginning on or after January 1, 2000, and before January 1, 2005.

### LEGISLATIVE HISTORY

**SB 1438** (Rainey - 2000) would allow a 100% credit for up to \$200 of qualifying educational expenses paid or incurred by a parent or a teacher at a qualifying educational institution.

**ABX 13** (Runner - 1999) would have allowed a deduction for 100% for costs paid or incurred by a teacher for classroom supplies used in teaching grades K-12 at any school in this state. This bill was held at the Assembly Desk.

**AB 1358** (Pringle - 1997/1998) would have allowed a credit equal to 100% of the amount of any contribution by a taxpayer to a public school. This bill failed to pass out of the first house by January 31 of the second year of the session.

**AB 336** (Miller - 1997) would have allowed a credit for qualifying classroom educational expenses, not to exceed \$500, that are paid or incurred by a qualified teacher at a qualifying educational institution. This bill failed passage in Assembly Appropriations.

### SPECIFIC FINDINGS

**Current federal and state tax laws** allow individuals to deduct unreimbursed expenses for materials donated directly to a school or school district as a charitable contribution, but only if the contributor retains no control over how the materials are used.

#### Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

#### Department Director

#### Date

Alan Hunter for GHG

3/17/00

In addition, employees (including teachers) may claim a miscellaneous itemized deduction for ordinary and necessary employee business expenses to the extent that the aggregate of these deductions exceeds 2% of their adjusted gross income (AGI). However, expenses paid by teachers in purchasing instructional materials and supplies for use in their own classes generally do not qualify for the deduction since, under case law, they are not considered "ordinary and necessary." **This bill** would allow a deduction of up to \$500 for instructional materials purchased by a qualified teacher and used at a qualified educational institution located in California. The deduction allowed under this bill would be considered a miscellaneous itemized deduction and deductible only to the extent that it exceeds 2% of the taxpayer's AGI.

**This bill** defines:

- ♦ "qualifying classroom educational expenses" as the costs paid or incurred by a qualified teacher for instructional materials that do not violate any provision of the Education Code or any rule of the governing school board; are the property of the qualifying educational institution at which they are used by the qualified teacher for teaching any subject legally and commonly taught, as certified by the educational institution's chief administrator; and are not purchased for the personal use of a qualified teacher.
- ♦ "qualified teacher" as a credentialed, full-time teacher working as a classroom instructor for the majority of his or her working hours in a qualified educational institution.
- ♦ "qualifying educational institution" as any public elementary, secondary, or vocational-technical school in California operated by state or local government entities providing education for grades kindergarten to 12, or any part thereof.

**This bill** would require the FTB to develop certification form to be used by the school chief administrator in certifying the expenses.

#### **Policy Considerations**

To the extent this bill authorizes a deduction not allowed under current law, this deduction would add an additional difference between California and federal income tax law, thus increasing the complexity of filing tax returns. The state/federal difference is usually addressed by a credit, which is more beneficial to the taxpayer.

Taxpayers may not benefit from this deduction if they are limited by the 2% of AGI test.

#### **Implementation Considerations**

This bill allows a deduction for costs paid or incurred for "instructional materials," but does not define this term. Ambiguity concerning whether the purchase of a particular item is deductible could lead to disputes between the department and taxpayers.

## **FISCAL IMPACT**

### **Departmental Costs**

It is anticipated that this bill would not substantially impact the department's costs.

### **Tax Revenue Estimate**

Revenue losses from this bill are estimated to be rather minor:

Estimated Revenue Impact of SB 1752 Taxable Years Beginning After 12/31/1999 and Enactment Assumed After 6/30/2000 (In \$Millions)			
Fiscal Years	2000/2001	2001/2002	2002/2003
Revenue Impact (Rounded)	Minor*	Minor*	Minor*

\*Minor means losses on the order of \$500,000.

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

### **Tax Revenue Discussion**

Revenue losses would depend on the amount of qualifying classroom expenses above the 2% of adjusted gross income threshold and the marginal tax rates of claimants.

According to the California Department of Education, the number of full-time credentialed teachers for grades K-12 was nearly 249,000 in California public schools during the school year 1998/99 and an additional 25,000 teachers were estimated for vocational-technical schools. The number of teachers was expanded 2% annually to project full-time teachers in 2000 and subsequent years.

Under current law, teachers may deduct certain unreimbursed expenses as miscellaneous deductions (subject to a 2% of AGI limitation) by itemizing their deductions. While specific tax return data is not available to measure this impact, it is most likely rather minor.

Based on departmental data for tax year 1996, around 49% of all taxpayers filing taxable returns with incomes between \$20,000 - \$90,000 AGI (used as a proxy for teachers) claimed itemized deductions.

If, under this bill, 15% of qualified teachers (itemizing deductions with the miscellaneous deductions) would incur eligible unreimbursed expenses of \$350 on average per teacher per year, the revenue losses would be minor (on the order of \$500,000 annually) by applying a 7% average marginal tax rate. This assumes that the \$350 would exceed the 2% AGI limitation, which is met by other business expenses.

Whether taxpayer can take advantage of this proposed deduction depends on a combination of factors, i.e., AGI's, incomes, total expenses subject to the 2% of AGI limitation (existing plus this proposed deduction), and whether they are able to itemize deductions (i.e., Schedule A) rather than take the standard deduction for taxable income purposes.

For taxpayers with \$25,000 (or less) of their AGI amount, the \$500 proposed deduction would not exceed the required 2% of AGI threshold. Some taxpayers at higher AGI levels (e.g., AGI of \$80,000) would have the 2% limitation at \$1,600, and the \$500 proposed deduction would fall far short of the threshold. Taxpayers with more moderate AGI levels could possibly take advantage of this proposal if they also have other miscellaneous deductions to combine with this proposed deduction.

#### **BOARD POSITION**

Pending.